
Review of the Student Status Confirmation Reporting Process

FINAL AUDIT REPORT



Audit Control Number ED-OIG/A03-70012
August 1999

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U.S. Department of Education
Office of Inspector General
Philadelphia, PA

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August 9, 1999

MEMORANDUM

TO: Greg Woods
Chief Operating Officer
Office of Student Financial Assistance

FROM: Bernard Tadley
Regional Inspector General for Audit

SUBJECT: FINAL REPORT
Review of the Student Status Confirmation Reporting Process
Control Number: ED-OIG/A03-70012

Attached is our subject report presenting our findings and recommendations resulting from our review of the student status confirmation reporting process.

Please provide us with your final response to each recommendation within 60 days of the date of this report, indicating what corrective actions you have taken or planned, and related milestone dates.

In accordance with Office of Management and Budget Circular A-50, we will keep this audit report on the OIG list of unresolved audits until all open issues have been resolved. Any reports unresolved after 180 days from the date of issuance will be shown as overdue in the OIGs Semiannual Report to Congress.

Please provide the Supervisor, Post Audit Group, Financial Improvement, Receivable and Post Audit Operations, Office of Chief Financial Officer and the Office of Inspector General, Planning, Analysis and Management Services with semiannual status reports. These will include promised corrective actions until all such actions have been completed or continued follow-up actions are unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

We appreciate the cooperation given us in this review. If you have any questions or wish to discuss the contents of this report, please contact me at (215) 656-6279. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

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EXECUTIVE SUMMARY

The objectives of this review were to examine the effectiveness of the Office of Student Financial Assistance (OSFA) and Federal loan participants' processes for student status confirmation reporting and to determine the accuracy of enrollment data. Based on our review, we conclude that the student status confirmation report (SSCR) process is generally working as intended. Nearly all schools are submitting enrollment data to the National Student Loan Data System (NSLDS). NSLDS is forwarding this data to the guaranty agencies, lenders and servicers, and these loan program participants are utilizing the information to service Federal loan portfolios. We did note some data accuracy issues, particularly the reporting of graduates.

The current electronic SSCR process was started in February 1997, and the NSLDS has continually made changes to improve the process. During the last six months, NSLDS and the National Student Loan Clearinghouse (a third party servicer that completes SSCRs for 2,100 schools with 70 per cent of student enrollment) have worked together to improve the SSCR process. Most importantly, they agreed to synchronize the schedules of Clearinghouse schools with the SSCR schedules of NSLDS. This has resulted in more frequent submissions to NSLDS, more timely data distribution to guarantors and servicers, and more accurate school certification dates.

To complement its ongoing initiatives, the OSFA can take specific actions to make the SSCR process more effective and efficient. We are recommending that the OSFA:

- Reemphasize the need for schools to provide correct enrollment data so that borrowers go into repayment on time, and correct graduate status so that the data can be used for analyses;
- Determine whether guaranty agencies are complying with SSCR requirements and providing correct status data to lenders so that the Department does not inappropriately subsidize loans;
- Suggest that servicers periodically determine whether their student statuses are current so that repayment begins on a timely basis;
- Have NSLDS and the Clearinghouse continue to work on a solution to meet the NSLDS' 30-day certification edit process;
- Determine whether NSLDS audit trails need to be preserved in certain situations so that data is not overwritten or removed;
- Include foreign schools in the electronic SSCR process so that those students enter repayment on a timely basis;
- Assure that EDEXpress and SSCR guidance agrees so that schools can more easily correct errors;
- Provide the option of sending "changes only" data to Federal Family Education Loan Program (FFELP) participants in order to reduce processing time and costs;
- Consider ways to better access full enrollment data so that transfer students can be tracked; and
- Determine whether the National Council of Higher Education Loan Programs, Inc. (NCHELP) and Student Loan Servicing Alliance (SLSA) data flow model should be supported.

More than 2,100 of 6,906 schools submitting SSCRs use the Clearinghouse to meet the SSCR requirements, but they do not pay for the service. The guaranty agencies and FFELP lenders and servicers underwrite the Clearinghouse's operating costs so that they can have access to the enrollment data; however, they are concerned about potential liabilities if the data they use is inaccurate. Since it has been suggested that NSLDS be the authoritative source of enrollment data, the Department needs to clarify what risk program participants assume when they use Clearinghouse data.

Since the recent amendments to the Higher Education Act require the guarantors to use their operating funds rather than Federal reserve funds to pay for Clearinghouse services, guaranty agencies may reassess their subsidization of the Direct Loan schools using the Clearinghouse services. The Department needs to determine whether diminished guarantor financial support of the Clearinghouse would impact the SSCR process. Currently, the Direct Loan servicer is not a Clearinghouse member. The Department should evaluate whether the benefits to the Direct Loan servicer of receiving more current enrollment updates and minimizing the handling of paper deferment forms outweighs the cost of paying for the Clearinghouse services.

Department's Reply

On July 16, 1999, the Department responded to our draft report and generally agreed with our 10 recommendations for Finding 1 – ***Areas in Need of Further Improvement*** and ***Improving Efficiency in the SSCR Process***. However, the Department disagreed with two of the three recommendations for Finding 2 – ***Clearinghouse Issues Need Resolution***.

For Recommendation 2.1, the Department stated that it cannot make an assertion as to suitability of data provided by a private entity over which it has no control or contract. For Recommendation 2.2, the Department did not agree that it needed to evaluate whether diminished guarantor financial support would impact the SSCR process. However, the department planned to continue to collaborate and cooperate with the Clearinghouse in the process of determining student status.

OIG's Response

We have carefully considered the Department's comments, but have not made any changes to the report or the recommendations. With regard to Recommendation 2.1, we note that the Clearinghouse member schools have over 70 % of the postsecondary enrollment. These schools provide full enrollment status updates to the Clearinghouse, which then responds to SSCRs sent by NSLDS. That data is received by NSLDS and distributed to guaranty agencies and servicers with minimal changes – the same as data NSLDS receives directly from schools. Further, the Department will soon begin a pilot project with the Clearinghouse and the Direct Loan servicer and should be able to better judge whether the Clearinghouse data is reliable and can be used without penalty. Further, if the Department contracts with the Clearinghouse, then it will have some control over this process.

With regard to Recommendation 2.2, we believe that the Department should not ignore the possibility that diminished guaranty agency support of the Clearinghouse could impact the SCCR process. If the Clearinghouse could not fully provide its service, it is our opinion that the Department should have a

contingency plan to deal with that circumstance.

This report includes, after each recommendation or finding, a summary of the Department's comments. We have addressed areas where we disagree or where further clarification is needed. A copy of the complete response is contained as the **Exhibit**.

REVIEW RESULTS

SSCR Process is Generally Working as Intended

The student status confirmation report (SSCR) process is generally working as intended. Schools provide student enrollment data to the National Student Loan Data System (NSLDS) either directly or through a third party servicer, such as the National Student Loan Clearinghouse (Clearinghouse), which represents over 2,100 schools. NSLDS then provides the SSCR data to guaranty agencies and the Direct Loan servicer. The Clearinghouse provides enrollment data to its members (guarantors, lenders and servicers) as well. In turn, guaranty agencies provide the enrollment information to lenders and servicers. Based on our visits to schools, guaranty agencies, and servicers, the data usually is being passed on in an expeditious manner, with the guarantors, lenders, and servicers using the enrollment information to perform due diligence tasks associated with federal loans.

Recent Improvements Made

Issues we noted during our fieldwork prompted some of the recent improvements. NSLDS officials acted promptly and corrected the process as quickly as possible. These items included FFELP students not being included on schools' SSCR rosters, problems with certification dates at the Clearinghouse, and changes to the SSCR guidance. Other improvements are also planned, including the implementation of a quality control and improvement process for schools.

Synchronization Makes the SSCR Process More Efficient and Accurate

During the last 6 months in particular, the Clearinghouse and NSLDS have worked together to better the SSCR process. Most importantly, they agreed to synchronize the SSCR schedules of NSLDS with the submission schedules of Clearinghouse schools. This agreement resulted in a joint letter signed by both NSLDS and the Clearinghouse officials and sent to Clearinghouse members.

To implement this new process, NSLDS modified SSCR submission schedules so the SSCRs would be created each month after a school submitted enrollment data to the Clearinghouse. The Clearinghouse allowed the schools to set their own schedule, so this was not an issue for them. Previously, a school could submit data to NSLDS only once every other month. Now, NSLDS can create SSCRs once per month. According to NSLDS officials, 30 schools now report

enrollment data 12 times a year. These changes have resulted in more frequent submissions to NSLDS and more timely distribution of enrollment data to guarantors and servicers.

*More FFELP Students Now
Included on School's SSCR Roster*

At one time, if guaranty agencies submitted conflicting enrollment data, NSLDS procedures allowed the loan information, but not the enrollment information, to be placed into NSLDS. Consequently, students would not be included on SSCR rosters. Now, NSLDS will use the enrollment status with the latest effective date to allow the student borrower to be included on the next SSCR for that school. If the data is correct, the school will confirm this. If it is not accurate, the school should report the correct data back.

Improvements in Process

NSLDS officials provided the following examples of how it is upgrading its system. One pilot project would have NSLDS send – probably using the Common Account Maintenance (CAM) format – enrollment data directly to the lenders and servicers to expedite the data transference process. (See page 7 for a further discussion of CAM.) NSLDS is also working on including the source code in its system. That will allow users to determine the data's origin and thus expedite the resolution of conflicting data problems. Under Phase II of implementation, NSLDS is issuing a task order that will result in the creation of SSCR performance measures. For quality control purposes, schools will then be able to compare themselves against their peers in categories such as timeliness and accuracy. NSLDS and the FFELP participants also developed and recently issued community based edits for the SSCR process.

Finding 1

***Areas in Need of Further
Improvements***

Although the SSCR process is continually evolving and being refined, further enhancements can be made. The following sections detail areas in need of further improvement and areas where efficiencies might be realized.

*Schools Need to Provide Accurate
Data*

Schools continue to provide incorrect data. At one school we visited, the school reported those students who did not register for the next regular term as withdrawn, effective the first day of the new term, rather than the last day of the term they attended. Over the course of a year, this meant that more than 4,000 borrowers might have entered repayment late – with the Department paying interest on the loans for the additional time!¹

¹ On November 23, 1998, the OIG issued Action Memorandum 99-03, which described the specifics of this situation.

The Department must continue to stress the necessity of reporting correct withdrawal dates.

This same school and many others are not correctly reporting graduates to the Department or to their third-party servicers. For students who received loans during the period July 1, 1997 through June 30, 1998, a recent query of NSLDS data showed 456 schools with no students listed as graduating. Another 296 schools had only 1 student listed as graduating for that same time period. With a total of 5,273 schools included in the report, approximately 14 per cent of the schools reported 1 or no students as graduating. In total, 1,209 schools reported less than 5 graduates for this same time period. This represents 23 per cent of the schools.

This condition limits the usefulness of the NSLDS enrollment data for any type of analysis involving completion or withdrawal rates.

If Clearinghouse schools do not report graduates, the Clearinghouse has a process that will designate the student as withdrawn. In a letter to the Clearinghouse, the National Council of Higher Education Loan Programs, Inc. (NCHELP) emphasized that schools should report the actual withdrawal date, rather than have the Clearinghouse determine the last day attended. If schools do not report a withdrawal date, the Clearinghouse now uses the last day of the last term for non-returning students.

For loan servicing purposes, a student withdrawal or graduation results in equal actions. But for anyone using NSLDS for statistical analysis or research, the reporting of a student as withdrawn or graduated could be important. Because of the need for accurate reporting, the Clearinghouse has been encouraging its members to correctly report graduates. Currently, Clearinghouse officials estimate that the compliance rate has risen to 45 per cent.

Guaranty Agencies May Need SSCR Oversight

A Guaranty and Lender Oversight Service review found that a guaranty agency had not sent SSCRs to non-Clearinghouse schools for over one year. Further, this same agency had not sent student status changes to all lenders nor tracked responses from the remaining lenders. It also did not always know which lenders held which loans. All of these problems resulted in many instances where lenders used an anticipated graduation date to start repayment, when the student had previously

withdrawn. This meant that the Department was subsidizing loans when it should not have, and servicers were capitalizing interest. We do not know whether any of these conditions exist at other guaranty agencies.

Lenders and Servicers Should Evaluate the Status of Internal Enrollment Data

One large FFELP lender/servicer did not have a system in place to routinely determine whether the student statuses on its system were current so that borrowers go into repayment on a timely basis. From a sample of 23 students, we found 3 students who had not had their statuses updated at the servicer since the original applications. The time from the original applications to the time of our review ranged from 11 to 13 months. Although the servicer was not aware of it, one student had transferred to another school and taken out 2 other loans.

Thirty day Certification Edit Issue Needs Resolution

Prior to the new synchronization process, the Clearinghouse, under certain circumstances, changed the school's actual data certification date so that data would pass NSLDS edits for data being less than 30 days old. Although the new process generally eliminated the need for the Clearinghouse to change school certification dates, certain conditions still exist where the 30 day certification date edit is not met by the Clearinghouse. This could delay information from reaching NSLDS.

Complete Audit Trail Should be Available for all SSCR Transactions

During our review, we noted several circumstances where the audit trail for an SSCR transaction was lost because the transaction was overwritten or removed. For example, when an SSCR transaction for the same student at the same school is received, the new transaction certification date overwrites the previous certification date as long as the enrollment status effective date and student enrollment status remains unchanged. Also, we noted one instance where a valid individual enrollment record was removed from the student status table and a record with an invalid date was placed in the student status unresolved table as the removed records replacement. We could not determine whether the overwritten or removed information is vital and requires a NSLDS programming change to assure that an audit trail is maintained.

Foreign Schools Need to be Included in the Electronic SSCR Process

In response to an OIG's *Investigative Program Advisory Report on FFELP and Foreign Schools*, the Department stated that schools receive and respond to SSCRs via the Title IV Wide Area Network (TIVWAN). However, several guaranty agency officials indicated that they still mail SSCRs to foreign schools. Further, the Department also noted that it does not require foreign schools to use the TIVWAN or participate in the SSCR

process. The Department viewed the language barriers and lack of SSN identifiers for school officials' destination points as the primary problems with getting foreign schools to comply with SSCR requirements. If student statuses are not routinely received, students may not enter repayment on a timely basis.

Department officials indicated that, among the alternatives considered, they might run a pilot program to require the largest foreign schools to electronically provide SSCR data over the Internet. They should continue with these plans. The Department also stated that it was reviewing the regulatory, legal, and technical provisions necessary to bring foreign schools into SSCR compliance.

EDEExpress and NSLDS Guidance
Needs to Agree

Schools that are not using a third party servicer are providing the enrollment data directly to NSLDS. Schools can use the EDEExpress software or school-developed programs to obtain and transmit the enrollment information. All schools that use EDEExpress software are sent an EDEExpress SSCR brochure. The schools that we visited were also using the 1997-98 NSLDS SSCR User's Guide.

Because the EDEExpress and NSLDS guidance did not always agree, the difference in ED's guidance caused some difficulties. One school had trouble trying to correct a recurring error - "error code 32". Clearinghouse officials also indicated that this same error was causing a problem for another school. See Appendix A for a more detailed description of the differences.

The school users looked at the EDEExpress SSCR pamphlet, but were unaware that error code 32 had to be corrected by using the on-line process. Only when they obtained the NSLDS User's Guide were they able to determine that they needed to go on-line to make corrections.

During our comparison of error message descriptions, we also noted one other error message (code 11) with a difference. We are not aware of this difference causing any issues at schools. See Appendix A.

Recommendations

We recommend that the Chief Operating Officer:

1. Remind schools of the necessity of correctly reporting student enrollment data – particularly emphasizing the proper reporting of graduates.

Department's Reply: The Department agreed with this recommendation.

2. Determine whether guaranty agencies are complying with the SSCR requirements – including the data passage to the correct lenders.

Department's Reply: The Department agreed with this recommendation.

3. Suggest that servicers review their internal systems to determine whether statuses are current (e.g., within a year).

Department's Reply: The Department did not fully agree with this recommendation because it believed that any action would be duplicative of ongoing activities. See the Exhibit for the full text of the Department's response.

OIG's Response: The implementation of the recommendation would require only that the Department suggest to the servicers that they internally run a program to identify those borrowers whose student statuses have not been updated for an extended period. The outcomes should assist the servicers as they perform due diligence and may reduce delinquencies and defaults.

4. Have NSLDS work with the Clearinghouse to resolve the remaining issues relating to the 30-day certification date edit requirement for accepting Clearinghouse data.

Department's Reply: The Department agreed with this recommendation and noted that the Clearinghouse and NSLDS synchronizing schedules have resolved the 30-day certification date issue.

OIG's Response: Discussions with Clearinghouse officials revealed that, while most of the 30-day issues have been resolved by the synchronization, some problems still exist and can result in data not getting to NSLDS in a timely fashion.

5. Determine whether enrollment data, which is overwritten or hidden, is vital and requires a NSLDS programming change to maintain an audit trail.

Department's Reply: The Department agreed with this recommendation.

6. Enforce foreign schools to comply with the SSCR regulations and also require them to use the Internet or TIVWAN to report.

Department's Reply: The Department agreed with this recommendation.

7. Change the next version of the EDExpress SSCR brochure so that its directions coincide with those provided in the SSCR User's Guide.

Department's Reply: The Department agreed with this recommendation and noted it was already making changes in NSLDS.

***Improving Efficiency
in the SSCR Process***

**NSLDS Should Offer SSCR
"Changes Only" Enrollment
Data to All**

The Department provides only student status and corresponding date changes ("changes only") to the Direct Loan servicer. Although the same option could be available to the FFELP guarantors, lenders and servicers, NSLDS currently furnishes FFELP users all available enrollment data with each submission. Since the NSLDS can provide "changes only" enrollment data, it needs to develop an implementation plan as an option for FFELP participants, as it does for Direct Loan.

Before last year, the Direct Loan service was receiving all enrollment data as well. But for various reasons including cost, NSLDS and the Direct Loan service agreed to have NSLDS send only changed data. This reduced the volume of transactions sent to the Direct Loan servicer and reduced the processing time and costs as well. Based on the positive experience of the Direct Loan servicer, this process would reduce the number of transactions needing to be processed at the guaranty agencies, lenders, and loan servicers. NSLDS had discussed, with the FFELP community, the option of using the "changes only" process, but this has not yet occurred. NCHelp and its members have been developing Common Account Maintenance (CAM) to facilitate standardized exchanges of loan data. Based upon discussions with NCHelp members and NSLDS, the CAM format might provide the best option by which the "changes only" data could be exchanged. The final version of CAM documentation was released in March 1999, but implementation and use is still some time away.

Full Enrollment Data Provides
Greater Tracking Capability

The Clearinghouse receives enrollment data on all students attending member schools – regardless of whether they receive federal financial aid. However, the Clearinghouse transmits an enrollment status to NSLDS only if a student appears on a specific school's SSCR. Restricting the NSLDS request to a specific school limits whether you will receive data on that particular student.

For its members, the Clearinghouse matches the full enrollment data with their loan portfolios– irrespective of an SSCR requirement. This practice facilitates the tracking of those students who transfer to another school – especially if they do not receive additional federal loans. The Clearinghouse members include all guaranty agencies, and certain large student loan servicers and lenders.

We believe that a process should be established where NSLDS periodically requests enrollment data from the Clearinghouse without limiting the request by attendance at a particular school. Details of how this would occur and if and how the Clearinghouse would be compensated would need to be negotiated. This would help assure that NSLDS has the most current enrollment data for all of the students in NSLDS. An alternative might be for NSLDS to request schools to voluntarily provide full enrollment data to NSLDS. However, the privacy issue might make schools reluctant to release data on students not receiving Title IV funds.

NCHELP and SLSA Offer a Data
Flow Model for the SSCR Process

NCHELP and SLSA, associations representing organizations participating in the FFELP have been involved in the discussion of the SSCR process. NCHELP's *Common Manual: Unified Student Loan Policy* outlines the SSCR process and the roles of the varied participants. NCHELP also has written letters to its members, the Clearinghouse, and the Department. In their December 4, 1998 letter to the Department's Chief of Staff, NCHELP and SLSA brought forth a proposal to improve the SSCR process. According to the letter, the proposed data flow model is designed to make enrollment data more timely and accurate by eliminating duplicate processing and thus reducing the associated costs. The model also provides guarantors, lenders, and servicers with a choice from whom they would receive SSCR data. The Department has not yet replied to the letter.

Recommendations

We recommend that the Chief Operating Officer:

8. Provide the option of allowing guaranty agencies, lenders and servicers to receive “changes only” data.

Department’s Reply: The Department agreed with this recommendation.

9. Pursue the options of accessing full enrollment data.

Department’s Reply: The Department agreed with this recommendation.

10. Determine whether the proposed NCHELP and SLISA data flow model should be supported by NSLDS.

Department’s Reply: The Department agreed with this recommendation.

Finding 2**Clearinghouse Issues
need Resolution**

The National Student Loan Clearinghouse (Clearinghouse) provides NSLDS with SSCR enrollment data for over 2,100 schools, representing about 70 % of student enrollment, of the 6,906 schools reporting. The data exchange system has worked, but some issues need to be addressed.

*Schools Benefit from
Clearinghouse Services*

Based upon discussions with schools and guaranty agency officials, schools like the Clearinghouse services. Whether they participate in the Federal Family Education Loan Programs (FFELP) or Direct Loan program, schools do not pay for Clearinghouse services. Because they only have to provide data dumps to the Clearinghouse, schools also have been able to free up resources previously involved with the SSCR process.

The guaranty agencies, lenders and servicers pay for the enrollment update services on the basis of the number of matches made with their portfolios. As of December 1, 1998, payment was based upon the number of matches per month times a fixed fee (\$.05) for each half or full time federal loan borrower and/or student for whom a federal PLUS loan had been made. Because most of its revenues come from these matches, the Clearinghouse's latest financial statement indicated in the notes that, if the Department insisted that enrollment data used by guarantors and lenders/servicers had to come from NSLDS, the Clearinghouse may lose its client base. At that time, the auditors did not know what the potential impact might be. The guaranty agencies, lenders and servicers had expressed concern about potential liabilities if the data they use is inaccurate.

The financial report statement apparently was a response to a proposed NSLDS discussion paper suggesting that FFELP participants would be held harmless if they used NSLDS data. This proposal would be similar to the current practice of schools being held harmless if they use NSLDS data for financial aid decisions. Conversely, this might mean that using enrollment data from the Clearinghouse could possibly result in a liability.

*Reassessment of Guarantor
Financing is a Possibility*

Based on discussions with NCHelp and guaranty agency officials, FFELP guarantors presently believe they are receiving fair value for Clearinghouse services, although they are paying for Direct Loan school participation. In the near term, the guarantors are likely to continue to support the Clearinghouse since schools like the services. However, that could change because the recent amendments to the Higher Education Act require the guarantors to use their operating funds, not their Federal reserve funds, to

pay for services. This could result in guaranty agencies reassessing their subsidization of the Direct Loan schools who are Clearinghouse members.

Direct Loan Servicer is not a
Clearinghouse Member

Currently, the Direct Loan servicer is not a Clearinghouse member. According to a Direct Loan official, the servicer is satisfied with the expediency of the weekly NSLDS data feeds. If it were a Clearinghouse member, the Direct Loan servicer also would receive weekly enrollment updates, which could be used to electronically process deferments. Clearinghouse data sent to servicers could be more current since the relaying of enrollment data to NSLDS is predicated upon SSCR schedules. Presently, the Clearinghouse provides only paper deferments, which are more costly to process than the electronic deferments, to the Direct Loan servicer. If delays in processing data and/or deferments lead to unwarranted delinquencies, the Department is penalized because the servicer is paid more for servicing delinquent accounts.

Recommendations

We recommend that the Chief Operating Officer:

1. Clarify the issue of whether Clearinghouse transmitted enrollment data can be used by FFELP participants without penalty.

Department's Reply: The Department did not agree with this recommendation. The Department stated that it cannot make an assertion as to suitability of data provided by a private entity over which it has no control or contract.

OIG's Response: The Clearinghouse member schools have over 70 % of the postsecondary enrollment. These schools provide full enrollment status updates to the Clearinghouse, which then responds to SSCRs sent by NSLDS. That data is received by NSLDS and distributed to guaranty agencies and servicers with minimal changes – the same as the data NSLDS receives directly from schools. With the Department beginning a pilot project with the Clearinghouse and the Direct Loan servicer, it should be able to better judge whether the Clearinghouse data is reliable and can be used without penalty. Further, if the Department contracts with the Clearinghouse, then it will have some control over this process.

2. Determine whether diminished guarantor financial support of the Clearinghouse would impact the SSCR process and what actions might need to be taken.

Department's Reply: The Department did not agree that it needed to evaluate

whether diminished guarantor financial support would impact the SSCR process. However, the department planned to continue to collaborate and cooperate with the Clearinghouse in the process of determining student status.

OIG's Response: We believe that the Department should not ignore the possibility that diminished guaranty agency support of the Clearinghouse could impact the SCCR process. If the Clearinghouse could not fully provide its service, it is our opinion that the Department should have a contingency plan to deal with that situation.

3. Evaluate whether the benefits the Direct Loan servicer would accrue from receiving more current enrollment updates and minimizing the handling of paper deferment forms would outweigh the cost of paying for the Clearinghouse services.

Department's Reply: The Department agreed that it would be beneficial to use the Clearinghouse services. It will soon begin a test with the Clearinghouse to determine the feasibility, expected costs, and benefits of using their services for Direct Loan borrowers

BACKGROUND

The Higher Education Act requires the National Student Loan Data System (NSLDS) to gather information on the enrollment status of students who received federal loans. The SSCR process is very important because the student's enrollment status is the basis for determining deferment privileges and grace periods, as well as the government's payment of interest subsidies. Initially, the process was performed with paper SSCRs being periodically sent by guaranty agencies to schools for updating. Now, with the NSLDS, the process is primarily done electronically. The main exception involves foreign schools, where this process is still performed via paper SSCRs.

The Office of Student Financial Assistance now has responsibility for overseeing the accuracy and completeness of data reported in the NSLDS. The current electronic process, which was placed into effect in February 1997, has two phases. The first phase involves the schools and NSLDS, while the second phase involves guaranty agencies, lenders, loan servicers and NSLDS.

The process for the first phase works as follows:

- Schools set SSCR submission timetables. Schools now can schedule a submission as often as every 30 days, but still are required to submit at least two per year. Originally, in February 1997, the minimum period between SSCRs was 60 days. Schools have flexibility in determining how often and when to report. NSLDS officials indicated that 90% of the schools provide at least 5 SSCRs per year.
- At the prescribed time, NSLDS forwards the SSCR roster file to the school. This file contains a record of each student that NSLDS has identified as enrolled in that school. The file contains information on each student including name, social security number (SSN), date of birth, enrollment status, enrollment status effective date, anticipated graduation date, student address information and other relevant data. The school has 30 days to review the information and update it as needed. The school then sends NSLDS a SSCR submittal file.
- When NSLDS receives this file, it performs some edits on the data. The school is then notified via a SSCR notification file whether all of the records are accepted. If all of the records are accepted, this file just includes a count of the accepted records. If all records are not accepted, this file includes details of the rejected records including error codes for each and a count of accepted and rejected records. The school has 10 days to correct the rejected records.

The school can perform the SSCR function or, as many schools have done, the school can have a third party servicer perform this function for them. Although twenty-eight servicers perform SSCR functions, the main third party SSCR servicer is the National Student Loan Clearinghouse (Clearinghouse) - a non-profit organization that was created by an industry sponsored consortium to simplify the enrollment verification process. The NSLDS receives most of the student enrollment data from the Clearinghouse, which acts as the intermediary between schools, NSLDS, guaranty agencies, lenders and loan servicers.

The Clearinghouse currently handles the SSCR function for over 2,100 schools, representing approximately 70 per cent of the overall postsecondary enrollment. The school signs a contract with the Clearinghouse, which authorizes the Clearinghouse to perform this function for the school. As the member schools' agent, the Clearinghouse provides status and deferment information to guaranty agencies, lenders, servicers, and NSLDS. The school does not pay the Clearinghouse for performing the SSCR function. Instead, Clearinghouse members, who include all of the guaranty agencies and certain of the larger lenders and loan servicers, pay for these services.

At a frequency that they determine, member schools provide the Clearinghouse with enrollment data of all students attending. Similarly, the guaranty agencies and member lenders and servicers provide data bases of their federal loan portfolios. The Clearinghouse matches the loan data bases against the student enrollment data bases and reports the most current status (including withdrawal, transfer, deferment eligible, and current) to its members. It also matches the NSLDS generated school specific SSCR with the school data and returns the SSCR to NSLDS.

The process for the second phase works as follows:

- NSLDS weekly sends enrollment and other loan related data to the guaranty agencies and the Direct Loan Servicer.
- The guaranty agencies and the Direct Loan Servicer process the data and apply the information to their files.
- The guaranty agencies then are responsible for providing the updated information to the appropriate lenders or the loan servicers who use the information to service their Federal loan portfolios.

Schools were required to sign up for participation in the Title IV Wide Area Network (TIVWAN) so that the SSCR process could be done electronically with standardized reporting procedures and formats. At the present time, 22 schools have not signed up for the SSCR process. This is down substantially from one year ago when 245 schools had not signed up for the SSCR process.

SCOPE AND METHODOLOGY

The objectives of this review were to examine the effectiveness of the Department's and Federal loan participants' processes for student status confirmation reporting and to determine whether the enrollment data is accurate. A prior OIG report, "Administration of the William D. Ford Federal Direct Loan Program by Schools" (Control Number 03-60009), had found that inaccurate student status reporting hindered efficient loan servicing. Since that report was issued as NSLDS was becoming fully involved and responsible for SSCR, this effort was meant to determine how the SSCR process was functioning.

To achieve an understanding of the Department's controls and processes relating to the student status confirmation process, we interviewed NSLDS and contractor officials, reviewed related procedures, policies, and regulations, examined available data bases, and reviewed files as necessary.

Our review focused on the student status confirmation process and the data going into NSLDS. We performed fieldwork at four schools, two guaranty agencies, one large lender/servicer, and the Direct Loan servicer during the period April through October 1998. On March 23, 1999, we discussed our review results with the Department.

At the schools, our review of the SSCR process involved two separate samples. One sample was obtained from the SSCR data in NSLDS. The other sample was taken from a list of students provided by the schools. This list included students who withdrew or graduated after April 1997 .

Our review was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the Department's system of management controls, policies, procedures and practices applicable to the Student Status Confirmation Report (SSCR) process. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purposes of this review, we evaluated the following control categories:

- Program participants compliance with SSCR requirements,
- Department's written SSCR guidance to program participants, and
- NSLDS edits and error reporting in the SSCR process.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses. Our review identified areas where improvements might be made in the SSCR process. These are fully discussed in the REVIEW RESULTS section of this report.

APPENDIXEDEExpress and SSCR Guidance Differences

The February 1998 NSLDS SSCR User's Guide has error code 32 described in the Error Messages as follows:

“Student status could not be applied as current due to a reporting/history violation *Use past Enrollment Change on-line screens.*” (Our emphasis)

The 1997-98 EDEExpress SSCR pamphlet had error code 32 described in the Error Codes table on page 21 as follows:

“Student status could not be applied as current due to a reporting/history violation.”

The difference between the two statements is the sentence, “Use past Enrollment Change on-line screens.” This statement is in the NSLDS User's Guide, but not in the EDEExpress document.

During our comparison of error message descriptions, we also noted one other error message with a difference. That was error message 11. The EDEExpress 1997-98 SSCR Guide stated, “No detail record matches the record identifiers (student's SSN, student's first name, date of student's birth) in NSLDS.” The NSLDS SSCR User's Guide in the 1998 Delivery System had error code 11 described somewhat differently than the EDEExpress 1997-98 SSCR Guide.

The 1997-98 EDEExpress guide also had the section for *Clearing SSCR Data* as the very last section - after the *SSCR Message Classes*, *Enrollment Status Codes*, and *Error Codes* sections. School users did not realize this section was in the guide until we pointed it out to them.

In June 1998, we had met and discussed these issues with the Department officials responsible for the EDEExpress guide. The new 1998-99 EDEExpress SSCR desk reference has clarified the “Clearing SSCR Data” issue. The new desk reference has a separate tab for this process and does not have this section placed on the very last page. This should help eliminate some of the confusion

EXHIBIT

UNITED STATES DEPARTMENT OF EDUCATION

THE OFFICE OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202-5132

July 16, 1999

Mr. Bernard Tadley
Regional Inspector General for Audit
The Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107

Dear Mr. Tadley:

Thank you for the opportunity to review and comment on your draft audit report, *Review of the Student Status Confirmation Reporting Process*. The main objectives of your review, as stated in your report, were to examine the effectiveness of processes of the Office of Student Financial Assistance (OSFA) and Federal loan participants for student status confirmation reporting and to determine the accuracy of enrollment data.

We are pleased to learn that you determined the student status confirmation report (SSCR) process is generally working as intended. However, we also realize there are ways we could improve the process. Thus, we are in general agreement with the findings and recommendations in your report.

As you noted, National Student Loan Data System (NSLDS) staff has been working continually with Student Loan Clearinghouse staff and others to improve the SSCR process. Examples of some recent efforts at improving cooperation and communication are provided below:

- On several occasions, NSLDS has held up production of monthly SSCR rosters until information has been received and processed for Clearinghouse schools.
- Schools can go online to update individual records when it is determined that critical information is needed to avoid placing students into repayment prematurely.
- The Clearinghouse now submits multiple files to NSLDS with information received from their client schools throughout the month. This smoothes the work flow and ensures that information is updated on a timely basis.
- Web access to SSCR online functions will be available in late 1999.

We help put America through school.

Page 2 – Mr. Bernard Tadley

OSFA will continue its efforts to improve the overall SSCR process. Responses to the specific recommendations included in the draft report are provided in the enclosed Appendix. Again, we appreciate the opportunity to review and comment on the draft report. Should you have any questions, please contact Lynn Alexander at (202) 205-7130.

Sincerely,

Greg Woods
Chief Operating officer

Enclosure

cc: Pat Howard
Linda Paulsen

APPENDIX

Finding I*Areas in need of Further improvement*Response to Recommendations:

Recommendation 1.1: *Remind schools of the necessity of correctly reporting student enrollment data - particularly emphasizing the proper reporting of graduates.*

Response We agree with this recommendation. Since mailing the initial Dear Colleague Letter, GEN-96-7, dated September 1996 announcing the implementation of the SSCR process, NSLDS staff has continued to remind schools of the importance of reporting student enrollment data in a timely manner. In addition, the new community-based edits will identify students that have been enrolled for a long period of time without graduating. We also plan to send a message via Title IV Wide Area Network (TIV WAN) to remind schools of the necessity of reporting graduates.

Recommendation 1.2: *Determine whether guaranty agencies are complying with the SSCR requirements - including the data passage to the correct lenders.*

Response We agree with this recommendation. The Guarantor Lender and Oversight Service (GLPS) staff and NSLDS staff have partnered to conduct reviews. In addition, we will ask the Office of Inspector GENERAL (OIG) to work with us to add steps to the A-133 compliance, supplement to address this issue.

Recommendation 1.3: *Suggest that servicers review their internal systems to determine whether statuses are current (e.g., within a year).*

Response We do not agree fully with this recommendation. We do not see a need for another initiative as NSLDS staff is currently working with guaranty agencies, some lenders and their servicers to reconcile loan statuses in their portfolios. NSLDS and GLOS staff are working together to conduct reviews and provide assistance, as needed.

Recommendation 1.4: *Have NSLDS work with the Clearinghouse to resolve the remaining issues relating to the 30-day certification date edit requirement for accepting Clearinghouse data.*

Response We agree and have already resolved issues relating to the 30-day certification date edit requirement. This is no longer a problem as NSLDS and the Clearinghouse have synchronized schedules. Currently, the Clearinghouse can send monthly schedule changes for its schools according to their business needs.

Recommendation 1.5: *Determine whether enrollment data, which is overwritten or hidden, is vital and requires a NSLDS a programming change to maintain an audit trail.*

Response We agree with this recommendation. We are already planning to maintain history on more enrollment data items within NSLDS than ever before.

Recommendation 1.6: *Enforce foreign schools' compliance with the SSCR regulations and also require them to use the Internet or TIV WAN to report.*

Response We agree with this recommendation. Staff from TIV WAN and the Institutional Participation and Oversight Service (IPOS) have been meeting to discuss enrollment of foreign schools in TIV WAN in order to comply with the SSCR regulation. In the fall of 1997, there was an electronic announcement which stated that all Title IV eligible schools will have to enroll in TIV WAN in order to continue their participation in Title IV. However, it is difficult to impose electronic reporting requirements and procedures on foreign institutions as each country has different privacy requirements and technical capabilities. In recognition of the sensitivities involved in achieving international compliance with SSCR regulations, IPOS is preparing a special letter to foreign schools describing the reasons why enrolling in TIV WAN will benefit them, and at the same time fulfill a legal requirement.

Recommendation 1.7: *Change the next version of the EDEExpress SSCR brochure so that its directions coincide with those provided in the SSCR User's Guide.*

Response We agree with this recommendation. We are already making the recommended changes in NSLDS.

Recommendation 1.8: *Provide the option of allowing guaranty agencies, lenders and servicers to receive "changes only" data.*

Response We agree with this recommendation. We are already planning such an option within NSLDS.

Recommendation 1.9: *Pursue the options of accessing full enrollment data.*

Response We agree with the recommendation. We will be holding internal meetings to discuss the approach.

Recommendation 1.10: *Determine whether the proposed NCHELP and SLISA data flow model should be supported by NSLDS.*

Response We agree with this recommendation. We are in favor of the NCHELP and SLISA model and we are currently pursuing a pilot project to determine the feasibility of an important aspect of the model.

Finding 2

Clearinghouse Issues Need Resolution

Response to Recommendations:

Recommendation 2.1: *Clarify the issue of whether Clearinghouse transmitted enrollment data can be used by FFELP participants without penalty.*

Response We believe our position is clear. The Department cannot make any assertion about the suitability of data produced by a private enterprise entity over whom it does not have control and with whom it has no contract.

Recommendation 2.2: *Determine whether diminished guarantor financial support of the Clearinghouse would impact the SSCR process and what actions might need to be taken.*

Response We do not agree with this recommendation. We do not plan to do such an evaluation. However, we do plan to continue to collaborate and cooperate with the Clearinghouse in the process of determining enrollment status of students.

Recommendation 2.3: *Evaluate whether the benefits the Direct Loan servicer would accrue from receiving more current enrollment updates and minimizing the handling of paper deferment forms would outweigh the cost of paying for the Clearinghouse services.*

Response We agree. We have decided that it would be beneficial to use the Clearinghouse services. We will soon begin a test with the Clearinghouse to determine the feasibility, expected costs, and benefits of using their services for Direct Loan borrowers.

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